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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003564

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TAGS: [PREL](#) [ETRD](#) [EINV](#) [ENRG](#) [EPET](#) [EAID](#) [KS](#) [IZ](#)
SUBJECT: IRAQ-KOREA ECONOMIC RELATIONS -- SECURITY STILL A
CONCERN

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Classified By: Economic Counselor Michael Dodman, reasons 1.4(b,d)

11. (SBU) SUMMARY: Korean Embassy Counselor Kwang Yong Chung said, during an October meeting with EconOffs, that virtually the only Korean business activity in Iraq is in the KRG, with the Korean National Oil Company holding interests in eight exploration and production blocks. One problem hampering investment in other areas of Iraq is the stringent security and documentation requirement imposed on Koreans wishing to travel to the country. Surprisingly, Korea's largest export to Iraq is cigarettes, followed by used cars. Korean development assistance focuses on public health. The Korean Embassy is struggling to cope with the loss of its Korean Marine security contingent, which will depart with other Korean military deployed in Iraq as part of Coalition forces.
END SUMMARY

The Hyundai Deal

12. (SBU) We made an appointment at the Korean Embassy after news accounts reporting that Electricity Minister Karim had announced that the Ministry of Electricity (ME) had signed deals with GE, Siemens, and a third company worth \$7-\$8 billion. According to the reports, Karim said, "These deals will help us to end the electricity supply problem by 2012." We later learned the third company was Hyundai, which had contracted to provide twelve 30-megawatt turbines burning heavy fuel oil, which, according to the letter of credit, would have a total value of \$385 million. In the event, Chung had no further background on the particular deal, only that Hyundai was simply providing equipment, and not building turn-key power stations.

KRG Activity

13. (U) Chung said the Korean National Oil Company (KNOC) had opened an office in Erbil on September 1 and a second office in Sulaymaniya on September 27. He provided details of KNOC's agreements with the KRG, which have also appeared in media reporting. According to Chung and the media, KNOC will form a consortium of South Korean companies to conduct exploration and production of eight blocks -- five located near Erbil and three others near Sulaymaniya. The blocks have total estimated oil reserves of 7.2 billion barrels, of which the Korean firms will have rights to 1.9 billion barrels. Under its contract, KNOC will acquire an 80% stake in Qush Tappa, a 60% stake in Sangaw South, a 20% stake in Bazian, 20% in Sangaw North and 15% stakes each in K15, K16, K17, and K21 blocks in Hawler.

14. (U) Chung confirmed that KNOC, to land the deal, had entered into an unusual arrangement, the "Oil for

Development" project, to provide \$2.1 billion of infrastructure construction in KRG -- roads, bridges, sewage, water supply, etc. The project manager would be the SK Construction Company subsidiary of leading Korean conglomerate (chaebol), SK Group. Construction would begin in a few months (i.e., probably at the beginning of 2009). Chung added that SK Energy had not qualified for the Ministry of Oil licensing round, but was hopeful that it would be included in an additional group of companies qualified to bid in a future licensing round. Since the first qualification, SK Energy had pulled out of an earlier petroleum deal with KRG and was a major sponsor of an MoO-backed "Oil and Gas Expo" to be held in Baghdad December 5-7. (Note: SK Energy began in 1962 as South Korea's first oil refiner. The company is now a leading energy and petrochemical company and Korea's largest and Asia's fourth largest refiner.)

Surprising Trade Patterns

15. (U) Chung sheepishly said South Korea's largest category of export to Iraq was tobacco, supplanting the usual U.S. tobacco dominance in other markets. He said Korean cigarettes were quite inexpensive, so that Korean diplomats, who had access to American cigarettes at the military Post Exchange, preferred to buy Korean cigarettes locally. Chung speculated that Iraqis were reluctant to be seen smoking American cigarettes. Korean used cars were in second place, although a new regulation banning importation of cars older than two years (which took effect two years ago) had reduced used car imports. Chung said Korean car companies had no plans to manufacture automobiles in Iraq or to open new car dealerships.

Low Levels of Business Interest

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16. (U) Chung said a strict Korean "passport law" restricted Korean business activity, particularly in the areas of Iraq outside KRG (which he referred to as "central and southern Iraq"). The ROKG (South Korean government) had passed the law after a South Korean contractor working in Iraq had been killed. The law, which set prison sentences for violators, imposed onerous documentary requirements on travelers. In order to receive permission to travel to Iraq, Koreans had to provide a business plan, proof of life insurance to a value of at least \$200,000, and a security plan. The documentation was required for each trip. As a result, only large Korean businesses had the resources to hire security services and meet the other requirements, although Chung noted that small and medium-sized Korean construction contractors were very interested in business possibilities in Iraq. The only applications under the law thus far had been for travel to KRG.

17. (SBU) The single exception, Chung noted, was the June 30-July 2 travel of a delegation of mix of Korean government and business officials to Baghdad that included Hyundai Construction and a Korean electric company. Chung said a Director General from the (Note: as Chung related the name) Ministry of Knowledge Economy had been part of the delegation and was interested in making a return visit. The original intent had been to visit in the fall, but Ramadan timing had complicated scheduling. Chung also referred to the postponement of the Ministry of Oil-sponsored Oil and Gas Expo, from October to the first week of December, suggesting that the visit would be timed to coincide with the Expo. South Korea had also invited members of Iraq's Investment Board to visit Seoul, but, although the Investment Board had expressed interest, no concrete follow-through had occurred. Other than the security issues, Chung commented, Iraqis held Hyundai in particularly high regard, remembering Hyundai's work in the '70s and '80s to build Iraq roads, bridges, and other infrastructure.

Korean Assistance Programs

18. (SBU) Chung said South Korean official development assistance (ODA) had a major element in the public health area. The ROKG had provided mobile medical units to Najaf and hoped also to ship them to Karbala. It was also planning to assist in the modernization of hospitals in Erbil and Baghdad. The Koreans had found that construction projects were difficult to execute, so had focused on providing equipment and training programs. The Korean International Cooperation Agency (KOICA) had two employees at the Korean Embassy to administer Korean ODA programs, while another office at the Embassy, the Korean Investment and Trade Agency or KOTRA, which promoted trade and commercial ties, had one employee.

Bio Notes and Atmospherics

19. (C) Chung speaks excellent English and is a graduate of the London School of Economics. He mentioned that he also has management responsibilities and that his time has been occupied in a search for new embassy premises. The Korean Embassy's protective contingent of 18 Korean marines would depart along with South Korea's contingent in northern Iraq, so Chung was looking for a new office in the International Zone. An Iraqi Police 55-man contingent of the Diplomatic Protective Service augments security, but Chung was skeptical regarding its effectiveness. Other than the marines, the Korean Embassy has 19 Koreans on its staff. The Korean Embassy is currently located across the Tigris from the U.S. Embassy New Embassy Compound, behind the Babylon Hotel in Jadriya.

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